Dry Bulk Market Review

FREIGHT MARKET SUMMARY

The downward trend that characterised the weak dry bulk freight market in 2014 continued into 2015 resulting in a record low half year for bulk carrier earnings. In February, the Baltic Dry Index (BDI) fell below the previous all-time low in August 1986.

Handysize and Handymax spot market rates averaged US$4,970 and US$6,270 per day net respectively in the first half of 2015, representing a 40% and 36% decline in average earnings year on year.

The largest bulk carriers suffered the most – averaging earnings well below Handysize ships – although rates improved in mid-June mainly on seasonal strength.

While freight market movements in the year to date have largely reflected seasonal patterns, the overall weakness in the market continues to be driven by a supply surplus and reduced cargo demand led by a slowdown in Chinese raw materials imports, especially coal.

The Pacific market underperformed the Atlantic during the period largely due to slower Chinese imports.

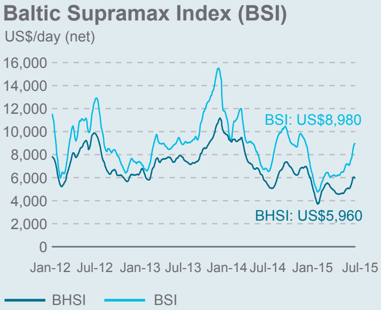
-40% ⬇ US$4,970 net

Handysize 1H15 average market spot rate

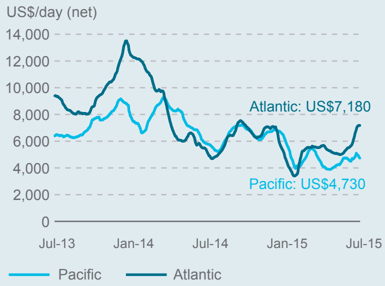
-36% ⬇ US$6,270 net

Handymax 1H15 average market spot rate

Baltic Handysize Index (BHSI) & Baltic Supramax Index (BSI)



Pacific vs Atlantic Handysize Rates



US$ freight rates are net of 5% commission

Source: Baltic Exchange, data as at 27 July 2015

SUPPLY DRIVERS

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

KEY SUPPLY DEVELOPMENTS

The global fleet of 25,000-40,000 dwt Handysize ships grew 0.8% net during the half year and there has been very little net growth in the dry bulk fleet overall since the end of January – a phenomenon not seen since the late 1990s. New ship deliveries representing 3.5% of existing dry bulk capacity (the lowest rate in 15 years) were substantially unchanged from the same period last year. However, scrapping exceeded expectations with ship owners opting to delete 2.5% of overall capacity (the highest scrapping rate since 1986 when annualised) and 4% of Handysize capacity, rather than continue to trade their older ships in such depressed trading conditions.

Dry bulk new ship ordering in the first half of the year fell to about 0.9% of existing capacity – the lowest level since 1997 – which is further increasing pressure on mainly Chinese shipyards to exit an over-crowded shipbuilding sector (the number of Chinese shipyards delivering dry bulk ships having already shrunk from 122 to 69 between 2012 and 2014).

Positive as these developments are, the market continues to be weighed down by the cumulative oversupply of mainly larger dry bulk ships.

Slow steaming has not materially changed during the period.

+0.8% ⬆

Global Handysize capacity

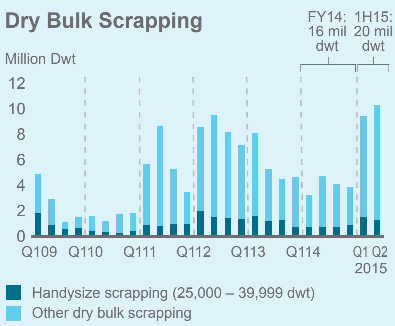
+0.9% ⬆

Overall dry bulk capacity

4% ⬆ (8% annualised)

Handysize scrapping in 1H15

Dry Bulk Scrapping



Source: Clarksons Platou

SHIP VALUES

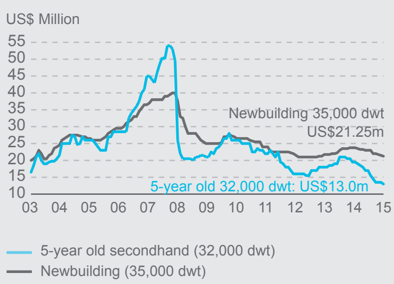
Clarksons Platou value their benchmark five year old Handysize at US$13.0 million (down 33% in 12 months) and Handysize newbuildings at US$21.25 million (down 11%).

The widening gap between secondhand and newbuilding ship values favours buying secondhand ships and discourages new ship ordering. The valuation gap is also widening between high-quality vessel designs from reputable shipyards and poor-quality units for which buying interest is very limited.

-33% ⬇ US$13.0m

Secondhand Handysize

Handysize Vessel Values



Source: Clarksons Platou, as at 24 July 2015

VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

DEMAND DRIVERS

KEY DEMAND DEVELOPMENTS

Dry bulk transportation demand in the first quarter of 2015 is estimated by Clarksons Platou to have reduced by 3.1% year on year (following a 1.1% reduction in the last quarter of 2014), weighed down especially by reduced Chinese imports.

Chinese coal imports in January-June declined by 60 million tonnes or 38% year on year due to slower economic growth, increased use of hydro-electric power and actions to protect China's domestic coal industry. Conversely, Indian thermal coal imports have been growing – at 34% (22 million tonnes) year on year according to Macquarie – but not enough to offset the reductions in other coal trades.

Chinese imports of iron ore in the first six months declined 1%, which was exacerbated by a shift in trade flows away from Brazil in favour of Australian exports to further reduce tonne-mile demand.

Chinese imports of seven key minor bulks reduced by 2.6 million tonnes or 7% year on year reflecting a general reduction in import requirements while drawing on existing inventory at a time of declining commodity prices. Since the Indonesian ban on bauxite and nickel ore exports took effect in early 2014, China has sourced these commodities from other countries, but demand has not returned to pre-2014 levels. However, influential imports of soybean into China continued to grow year on year.

On a positive note, SSY project a gradual 6% increase in cargo volumes in the second half of 2015 compared to the first half.

Overall dry bulk demand

- 3.1% 1Q15 YOY

Chinese imports – major bulks

- 1% Iron Ore

- 38% Coal

Chinese imports – minor bulks

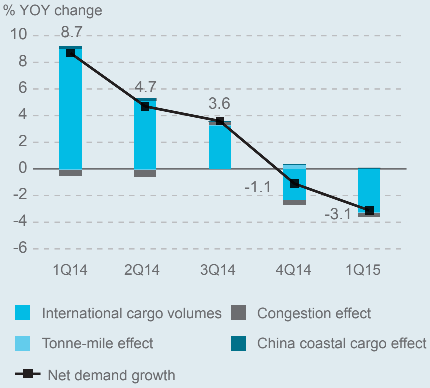
+3% Soya Bean

+11% Copper Ore & Concentrate

+15% Bauxite

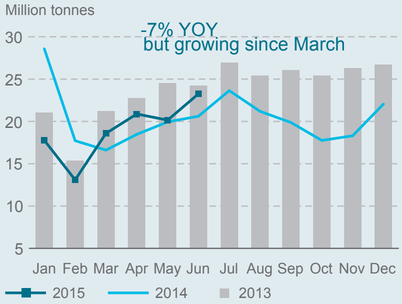
- 37% Nickel Ore

Dry Bulk Effective Demand



Source: Clarksons Platou

2015 Chinese Minor Bulk Imports



Chinese imports of 7 minor bulks including Logs, Soyabean, Fertiliser, Bauxite, Nickel, Copper Concentrates & Manganese Ore

These 7 commodities make up over one third of the cargo volumes we carry

Source: Bloomberg

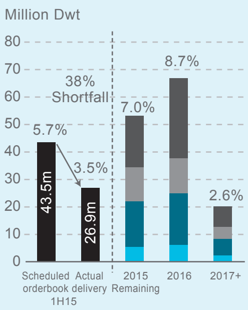
ORDERBOOK

The pro-forma bulk carrier orderbook currently stands at 18% which remains an obstacle to restoring a healthier supply/ demand balance even if actual deliveries are falling short of the scheduled orderbook deliveries at the start of the year.

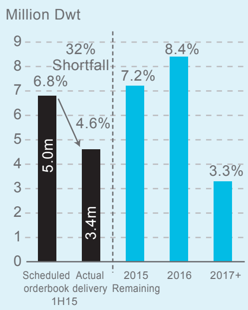
There was very little dry bulk new ship ordering in the period due to the weak freight market and poor outlook at a time when secondhand ships represented better investment value than newbuildings.

The majority of dry bulk capacity on order is from Chinese shipyards, and we expect current market pressures to result in actual deliveries continuing to fall well short of the orderbook schedule.

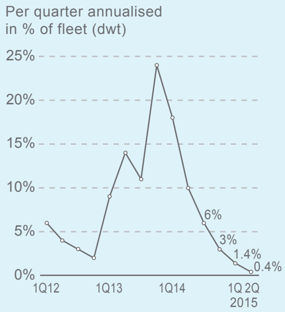
Orderbook by year



Handysize Orderbook



Dry Bulk New Ship Ordering



Source: Clarksons Platou, data as at 1 July 2015

	ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 25 YEARS OLD	SCRAPPING AS % OF EXISTING FLEET (ANNUALISED)
Handysize (25,000 – 39,999 dwt)	19%	9	9%	8%
Handymax (40,000 – 64,999 dwt)	24%	8	4%	2%
Panamax & Post-Panamax (65,000 – 119,999 dwt)	14%	8	2%	4%
Capesize (120,000+ dwt)	19%	8	1%	8%
Total Dry Bulk (10,000+ dwt)	18%	9	3%	5%